

# RURAL DEVELOPMENT IN BOSNIA AND HERZEGOVINA: MYTH AND REALITY





NATIONAL HUMAN DEVELOPMENT REPORT 2013

# **RURAL DEVELOPMENT IN BOSNIA AND HERZEGOVINA: MYTH AND REALITY**

# IMPRESSUM

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# RURAL DEVELOPMENT IN BOSNIA AND HERZEGOVINA: MYTH AND REALITY

What is the state of human development in the rural areas of Bosnia and Herzegovina, where the majority of its people live? Do they have jobs and decent incomes? Do they have proper access to health care and education? Are they connected by good roads, services and telecommunications? Are they involved in the mainstream of social and political life? How important is agriculture in rural life? These are the questions which this eighth Human Development Report for Bosnia and Herzegovina sets out to answer. Some of its recommendations are specific to rural areas, whilst others highlight important steps that the country should take to benefit urban and rural areas alike.

Everyone has their own understanding of rural areas, a picture in their head of village life. Much of this may be accurate, but unless regularly checked against reality, commonly-held views can become outdated and cease to be a reliable basis for decision making. Many decisions have to be taken in the next few years as Bosnia and Herzegovina strengthens its rural development plans and prepares to implement the EU's "Instrument for Pre-accession in Agriculture and Rural Development" (IPARD). The unique contribution of this report is not to anticipate the results of that planning process but to prepare the ground, to challenge commonly-held assumptions and help establish where the truth really lies.

This summary document seeks for that truth by looking at a series of commonly-held beliefs and asking what is myth and what is reality – starting with the idea of rurality itself...



# RURALITY

“ Bosnia and Herzegovina is the most rural country in Europe

The population of BiH is very unevenly spread:



- 61% of the BiH population live in rural municipalities, putting it in fourth place behind Montenegro, Ireland and Finland.
- 52% live outside urban settlements, second only to Moldova.

So Bosnia and Herzegovina is one of the most rural countries in Europe, but not quite in first place. It may be precisely because such a very high proportion of the population lives in, or in close contact with, the countryside that many of the expected urban-rural differences fail to appear.

BiH is one of the most rural countries in Europe:

#### Share of population living in predominantly rural areas



Food and Agricultural Organisation FAOSTAT, <http://faostat.fao.org>, accessed 17 October, 2012



## “ BiH can be divided into two parts – urban and rural – which are significantly different from each other

- Rurality is multi-dimensional, and no single rural-urban classification will work well for all policy purposes. As a minimum, BiH should be divided on two axes: settlement size, and characteristics of the municipality.
- Division by settlement size correlates more with agriculture, infrastructure and local services, with the main dividing line lying between villages and larger settlements.
- Division by municipality correlates better with economic factors, with the main division being between municipalities that house or border a major city and those that do not.

The big divide in BiH is between its big cities – Sarajevo, Banja Luka, Tuzla, Zenica, Mostar and Bijelina – and the rest of the country:

Indicator	Cities	Towns & villages
Net migration per 10,000 people	+36	-14
Economically-active share of population	35%	29%
Unemployment rate	31%	50%
Average wage	BAM 895	BAM 715
Per capita GDP	BAM 10,460	BAM 4,730

Municipal-level data from state and entity statistical institutions

My Place, Center for Social Research Analytika website <http://www.mojemjesto.ba/en>, accessed 17 October, 2012

The large majority of indicators show little or no significant difference between urban and rural areas, however these may be defined. The defining feature of rurality is that the population is more thinly spread and physical distances between people are greater; rural-urban differences emerge most consistently where distance and density act most directly: in relation to infrastructure, access to services and the economic impact of nearby cities.

Most indicators show little difference between rural and urban areas:

Indicator	Urban	Rural	Significance
Child illness in previous 2 weeks (2 indicators)	4.3%	4.7%	<i>not significant</i>
Received immunisations (5 indicators)	91.9%	91.7%	<i>not significant</i>
Age-appropriate breastfeeding	11.3%	21.4%	Rural better ***
Child malnutrition (3 indicators)	4.8%	4.0%	<i>not significant</i>
Early childhood education	22.8%	7.9%	Urban better ***
Secondary school attendance	90.7%	92.3%	<i>not significant</i>
Youth literacy – Male	100.0%	99.9%	Urban better ***
Youth literacy – Female	99.9%	99.1%	<i>not significant</i>
Sex before age 15 – Male	2.1%	1.2%	<i>not significant</i>
Sex before age 15 – Female	0.2%	0.1%	<i>not significant</i>
Knowledge about HIV – Male	44.3%	49.0%	Rural better *
Knowledge about HIV – Female	49.7%	46.5%	<i>not significant</i>
Use of improved drinking water	99.7%	99.5%	<i>not significant</i>
Use of improved sanitation	98.7%	92.0%	Urban better ***

UNICEF (2013), Bosnia and Herzegovina Multiple Indicator Cluster Survey 2011-2012  
Significance level: \*=95%; \*\*=99%, \*\*\*=99.9%

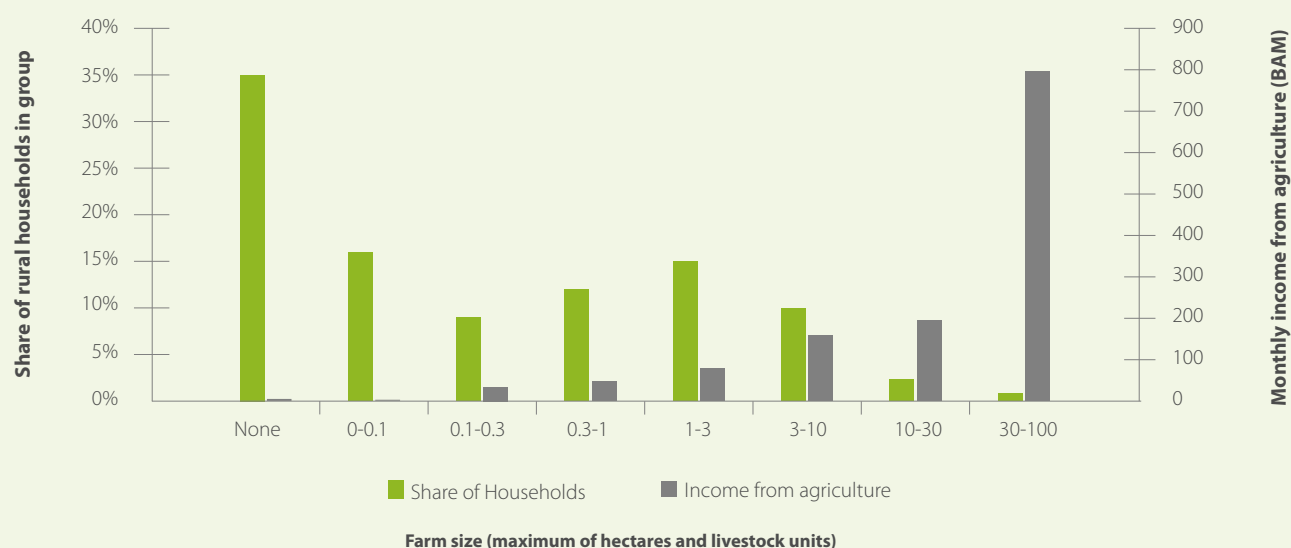
# AGRICULTURE

## “Agriculture is central to rural communities

- Half of rural households have little or no involvement with agriculture, at most keeping a vegetable garden.
- 36% of rural households operate “smallholdings”, producing a significant share of their own food requirements, but generating very little cash income.
- Around 13% of rural households may be considered as full-time or part-time farms, producing significant quantities for sale, yet even these gain more than three-quarters of their income from outside agriculture.
- Less than 1% of households would typically be classified as “commercial farms” and be targeted by IPARD measures to improve agricultural production and marketing.

Most rural households have no agriculture, just a garden, or a smallholding of 1-3 ha/LSU, and gain very little income from agriculture. Larger farms with significant agricultural income are very rare:

### Share of rural households and monthly agricultural income, by farm size



- Overall, 6.6% of rural household income comes from agriculture, and only 6.5% of rural households earn the majority of their income from farming. Even in the most agricultural of municipalities, agriculture is still a minor source of rural income.
- Formal employment in agriculture appears to be very low, with most of the labour provided by unpaid family members.

So agriculture matters a little to many rural households but matters a lot to very few. The rural areas of BiH may still be culturally agrarian, but economically they depend on industry, services and state benefits.

Rural households fall into two main income groups – those earning BAM 200-400 per month and dependent on benefits (mainly pensions), and those earning BAM 800-1,000 per month from employment; agriculture is a very minor source of income.

### Income distribution of rural households, showing breakdown of monthly income



53% of rural households earn income from employment, 50% receive social benefits, only 9% generate a cash income from agriculture, which averages 6% of total household income:

Source of income	Average monthly household income		Share of households receiving income from this source %
	Amount BAM	Proportion %	
Agriculture	50	6.5	9.4
Employment	517	67.4	53.4
Self-employment	13	1.7	1.8
Services & seasonal	12	1.5	4.8
Assets	9	1.1	2.5
Support:	167	21.7	51.2
<i>Remittances</i>	1	0.2	1.2
<i>Family</i>	3	0.3	1.7
<i>Social payments</i>	163	21.2	49.6
<b>Total</b>	<b>767</b>	<b>100.0</b>	<b>-</b>

UNDP (2012), *Rural Household Survey* (forthcoming)

“ If agriculture is intensified and mechanised, many people will leave the land and the villages and move to urban areas

“ If people continue leaving the countryside at this rate, there will be no-one left to look after the land

- There is very little paid farm labour to be shed, and the 93% of rural households that do not depend on farming for their income are not going to move anywhere because of changes in agriculture, as their choices will be driven by the non-agricultural economy.
- The agricultural land of BiH could be managed by a fraction of the current number of farmers, if farms were larger and better organised. The biggest risks of land abandonment is not labour shortage per se, but that people will be too busy with their full-time jobs to bother cultivating land for the small extra income it can produce, yet remain reluctant to part with the land that they once bought or inherited.

## “ Rural households practise pluri-activity, receiving income from a variety of different sources

- Most rural households obtain the large majority of their income from just one source – usually either employment or social benefits – and so exhibit the exact opposite of pluri-activity. Agriculture usually contributes food for the family, rather than cash income.

## “ Diversification is vital to the future of farming families

- Most households in rural BiH diversified out of agriculture in the 1950s and '60s and now earn their main income from non-agricultural sources. It could be argued that the minority that do still depend on agriculture would do better to concentrate on that and become bigger and better farmers.

## “ The best hope for BiH agriculture is high-value bio-farming

- Farmers throughout Central and Eastern Europe talk about the potential of organic farming, but it will only be high-value as long as it is niche. The large majority (mostly part-time farmers) are likely to stick with the convenience of sprays and fertilisers – leaving organic farming as a profitable niche for that minority of serious producers who can rise to the technical and marketing challenges.

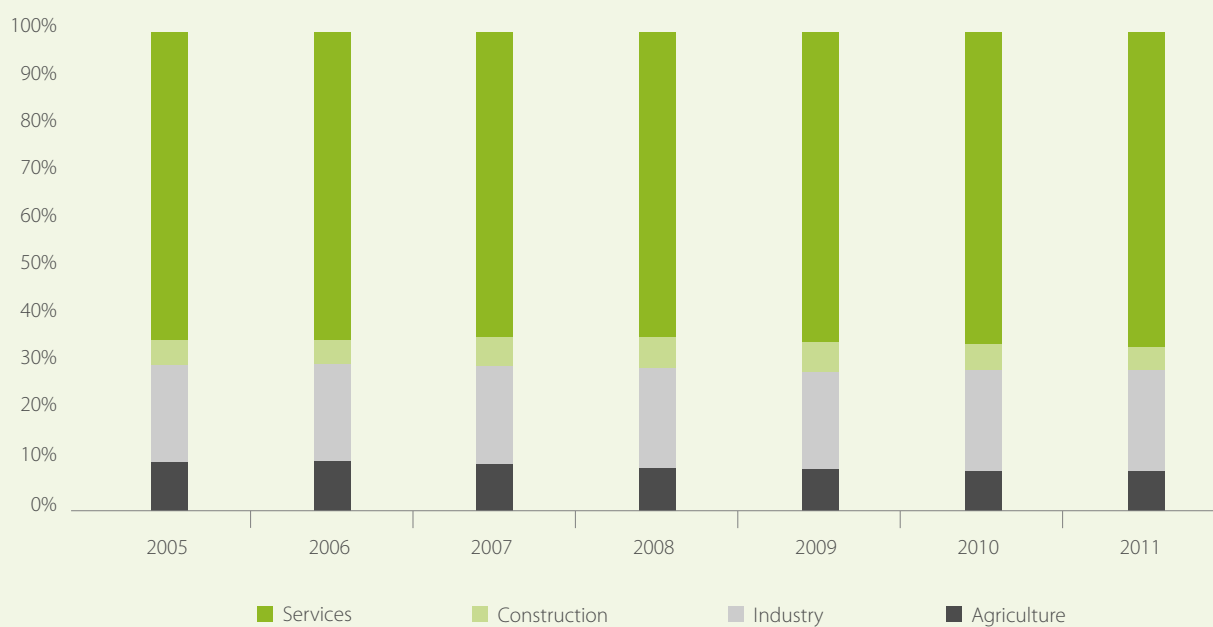
## “ Agriculture can drive economic recovery in BiH

- There is considerable potential to increase agricultural productivity and profitability from its current level, but changing the practices of hundreds of thousands of part-time producers will be a major challenge, particularly when there is no effective advisory service.
- BiH is a country of hills, mountains and forests, with less than 20% of its land area suitable for intensive farming, and with a land-ownership structure that impedes development.
- Agriculture's share of Gross Value Added is falling steadily, from 10.3% in 2006 to 8.2% in 2011.

So agriculture can make an important contribution to the overall economy but cannot realistically be its main driving force.

Agriculture represents a small and declining share of total GDP:

### Shares of GDP in BiH over time



BiH Agency for Statistics (2012), *Bosnia and Herzegovina in Figures*

# MIGRATION

**“ People are moving rapidly from rural to urban areas, with the abandonment of land and villages**

**“ We now live in a post-urban age, where the drift from the land has reversed and people are moving back to the countryside**

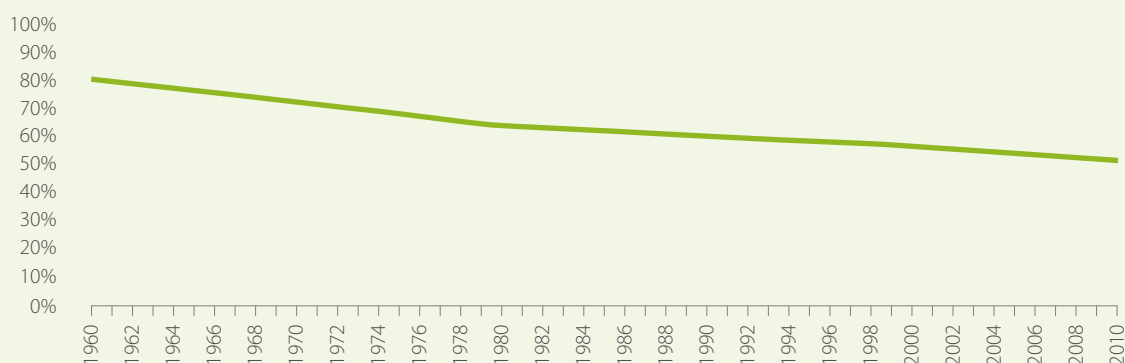
- People are moving out of medium-sized towns and into cities, with a slower movement out of villages, but there are very big differences from municipality to municipality.
- The net effect is that the share of the BiH population living in rural areas is falling by about 10% every generation – the same long-term trend seen throughout Europe.

**“ People responded to the war by moving out of the cities and into villages, where they could at least generate some livelihood from farming**

- The war caused every conceivable kind of population movement, but there is no evidence of a general or lasting movement from town to country.

The share of BiH population living in rural areas has continued to decline before, during and after the war:

**Shares of total BiH population living in rural area**





## “ The cities can no longer absorb all the people coming in from the countryside

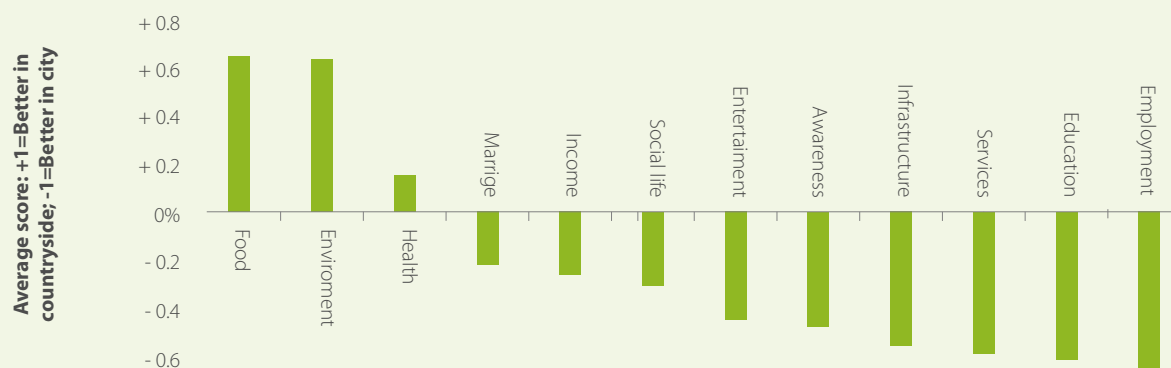
- People are moving relatively slowly, and cities have lower unemployment and higher wage rates than either towns or villages – they are relatively more able than rural areas to absorb labour.

## “ It should be an explicit policy goal to maintain the population in rural areas

- Why? Cities offer greater economic opportunities, more cost-effective service delivery, and a more diverse social life. Villages offer a different quality of life. The goal of human development should be to increase people's choices and let them decide for themselves where and how they want to live.

Respondents saw more disadvantages than advantages of rural life – but the food and the environment are much better:

### Quality of life in rural vs urban areas



UNDP (2012), *Rural Household Survey* (forthcoming)

So people are moving from rural to urban areas – slowly, consistently, and for reasons that make sense to them.

# RURAL DISADVANTAGE

## “ Rural areas have limited economic opportunities, with high unemployment and low wages

- The rural population is slightly older than the urban, with a smaller share of people being economically active.
- Unemployment is high throughout BiH. Employment and wages are highest in cities and lowest in intermediate areas with towns. Rural areas lie between these two extremes, and neither unemployment nor wage rates show any correlation with their degree of rurality.

Unemployment is lowest in cities, highest in towns, and intermediate in rural areas:

### Unemployment rate



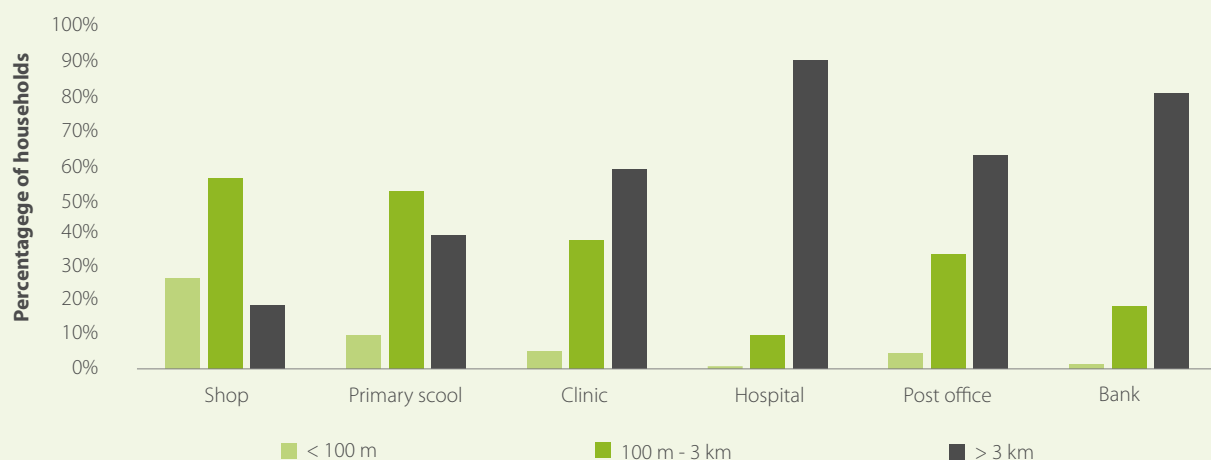
Numbers in brackets are population per square kilometre. Error bars show 1 standard deviation either side of the mean.

## “ People in rural areas are at greater risk of social exclusion, denied equal access to services, and are left outside the mainstream of political and social life

- Two UNDP indices of social exclusion found no difference between urban and rural areas in factors like membership of organisations, voting in elections, poverty and further education. A third index found that rural residents were at greater risk of exclusion due to not having completed primary education (a particular problem of the older generation) or being without any apparent source of income.
- Rural residents have greater distance to travel to many public services, and report various obstacles including travel time and cost. However, indicators of health and education outcomes suggest that these obstacles are usually overcome.

More than half of rural residents live at least 3 km from the nearest clinic, hospital, post office or bank:

### Distance to nearest public services



UNDP (2012), Rural Household Survey (forthcoming)

## “ Rural areas have more conservative attitudes and values

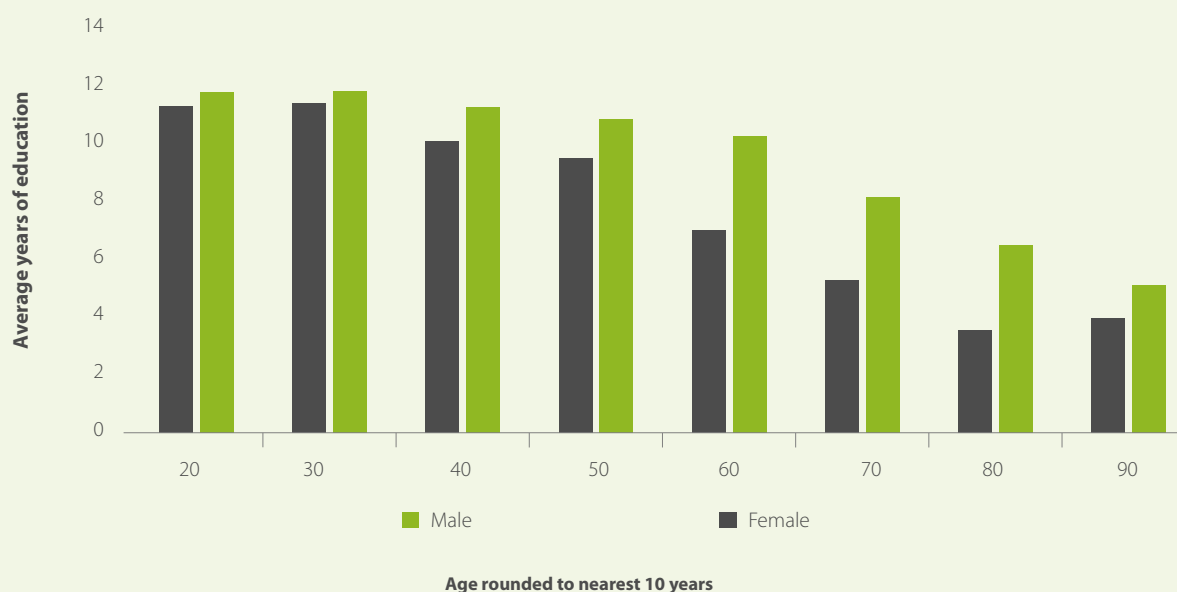
- A UNICEF study of sexual attitudes and behaviour showed no consistent urban-rural pattern: in some respects rural areas were more conservative, in others more progressive, and in most there was no difference.
- Many rural households maintain traditional gender roles, with the man going out to work and the woman staying at home to look after the house and children. This pattern can be found throughout BiH but may be more pronounced in rural areas, particularly amongst the older generation.

## “ In rural areas children, especially girls, tend to drop out of school early, restricting their choices throughout life

- The rural population as a whole has around 25% less years of education than the urban population. Women have around 15% less education than men – in rural and in urban areas.
- However, most of this difference lies in the older generation and reflects the social and educational conditions of the 1940s, '50s and '60s. In the 21st century rural girls receive around 4% less education than boys, and children in rural areas average as many or more years of education as those in urban areas.

The gender gap in rural education lies mostly in the older generations:

### Years of education completed vs age and sex



UNDP (2012), *Rural Household Survey* (forthcoming)

So rural differences and disadvantages are now considerably less than commonly thought. The hallmark rural features of greater distance and lower density remain a challenge for service delivery, whilst the economic plight of medium-sized towns calls for urgent attention.

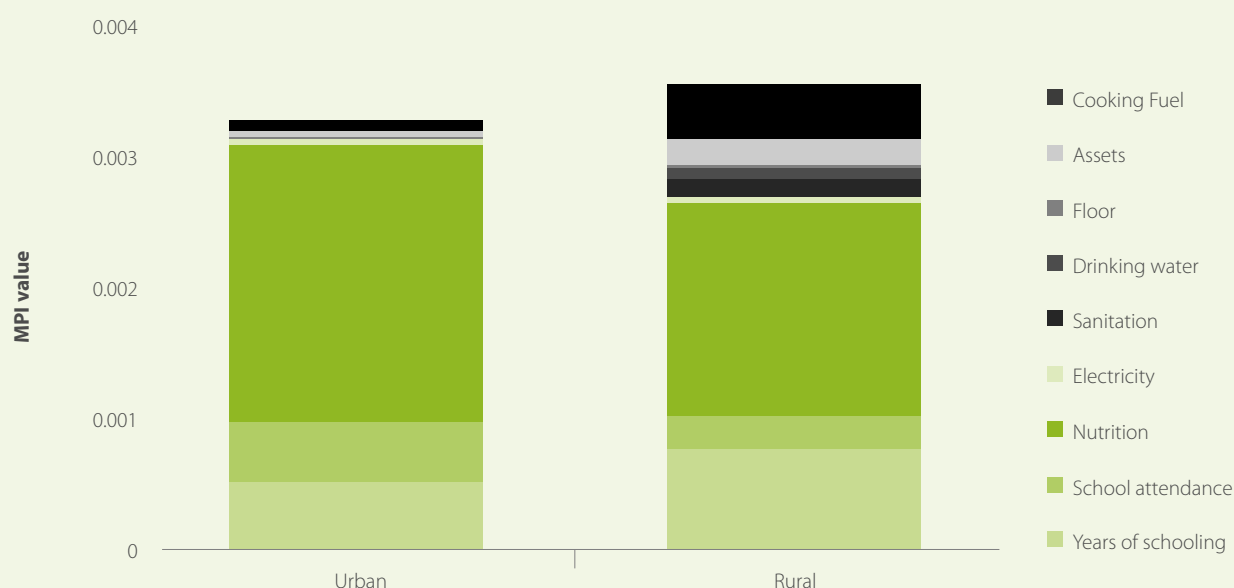
# POVERTY

## “Poverty is deeper and more widespread in rural areas

- The 2010 Multi-dimensional Poverty Index shows that rural families score better than urban in terms of nutrition, worse in terms of wealth, and about the same in terms of education. Overall, poverty is rated as 9% more severe in rural areas, though the entire difference can be accounted for by the common rural practice of cooking and heating with wood – which is regarded as an indicator of poverty.

The higher poverty score for rural areas is due to the indicators of wealth, particularly cooking fuel, but nutrition is markedly better in the countryside:

### Intensity and composition of multi-dimensional poverty in urban and rural areas



- The 2007 Household Budget Survey showed that 20% of rural **people** live in poverty compared to 18% in urban areas, and that their poverty is 9% deeper, but the distribution is very different: rural poverty is spread out amongst a large number of small households (e.g. many pensioners) whilst urban poverty is concentrated on a smaller number of large households (e.g. families with children). Thus 24% of rural **households** count as poor, compared to 11% of urban households.

So poverty in rural areas is around 10% more severe than in urban areas, but different in its nature and distribution. It may therefore require different responses.

# RESPONSES

## “ The best response to the needs of rural areas in BiH is IPARD-style measures to invest in rural communities and businesses”

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- Rural development measures in the EU imply a transfer of resources from an urban majority to a rural minority, with a significant transfer cost due to the complex procedures involved. When the rural population is in fact the majority, and pays around half of total taxes, the rationale is less convincing.

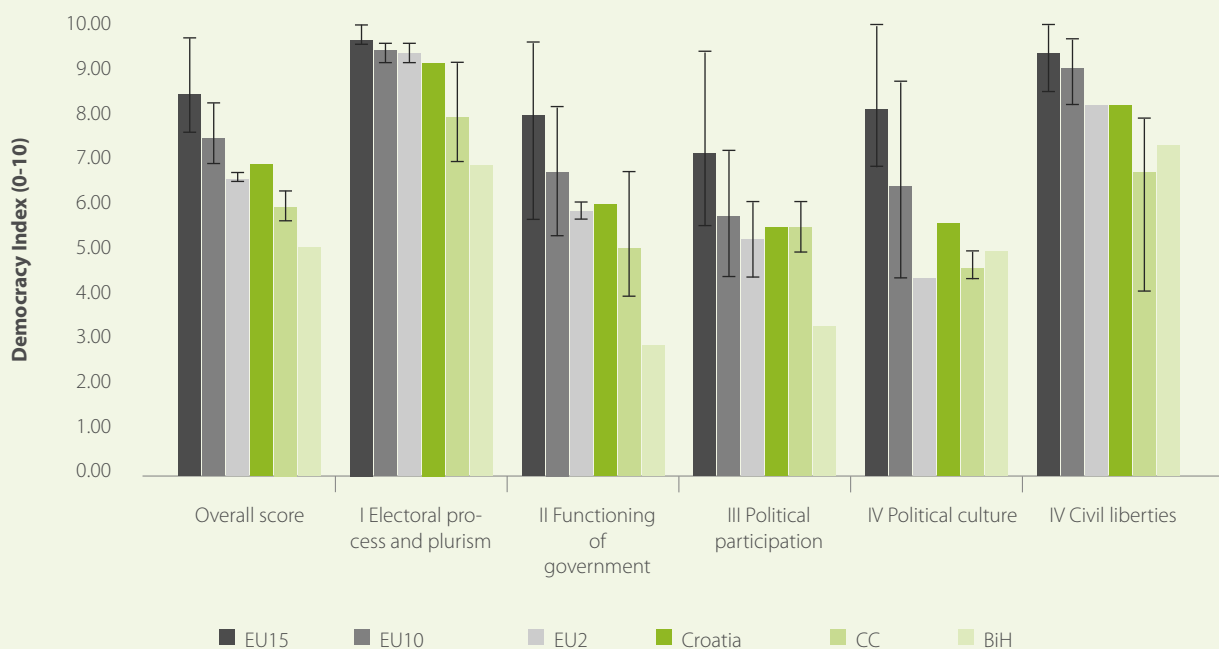
## “ The specific problems of rural areas require specific rural solutions

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- The economy of BiH should be thought of as one integrated system, strongest in the cities of 100,000 people or more, weakest in the intermediate municipalities dominated by medium-sized towns. Rural municipalities vary considerably and probably reflect the economic health of nearby towns and cities. Because rural and urban areas are so closely linked, the problems of BiH as a whole are shared by its rural areas.
- The biggest problem hindering development is bad government: slow decision-making, ineffective chains of command, bureaucracy and corruption. In international comparisons, BiH ranks 98<sup>th</sup> in the world in terms of democracy, 127<sup>th</sup> in terms of ease of doing business, and 72<sup>nd</sup> in terms of perceptions of corruption, placing it behind every current and prospective EU Member State on each indicator except corruption, where it still scores 30% worse than the EU average.

BiH ranks worse than all current and potential EU Member States in its level of democracy. The biggest deficits are in "Functioning of government", "Political participation" and "Electoral process and pluralism":

#### Democracy Index for BiH compared to current and potential EU Member States (highest is best)



Economist Intelligence Unit (2012), *Democracy Index 2012: Democracy at a standstill*

- The problems of government affect every aspect of life, with numerous examples in agriculture. Bad bureaucracy implies a greater burden for rural areas, where people have to spend more time and money travelling to administrative centres.



Bad bureaucracy is strongly associated with inequality and low development; BiH has a substantially lower business ranking than all current and potential EU Member States, and a lower IHDI than any EU country:

### Inequality-adjusted Human Development Index (IHDI) vs Ease of Doing Business ranking



Goss, S. (2013), *Why are some countries richer than others? Part II: Money isn't everything.*

So improving government and administration should be the top priority for BiH as a whole and for its rural areas. Good government will develop the capacity for effective interventions and provide a sound foundation for economic growth in urban and rural areas alike.

# THE REAL AGENDA FOR RURAL BIH

**1**

**Serve the rural population** by focussing providers and international organisations on the rural needs in health, education, social services, water and sewerage.

17% of rural homes lack indoor piped water. 58% are more than 3 km from the nearest medical facility.

UNDP (2012), *Rural Household Survey*

Since budgets are always limited, difficult decisions and trade-offs will need to be made: Will diverting resources from urban to rural areas increase or decrease human development and equality? The equation will be different in every case, but change is possible.

**2**

**Make agriculture wealthy**, not through subsidies that hide inefficient production or the search for a “wonder cure” such as organic farming, small-scale food processing, or farmers’ associations, but by meeting the basic needs of ordinary farmers: well-functioning markets, adequate support services, and the transfer of knowledge, so that the technologies of crop and livestock production, already well-established in western Europe, can be adopted in BiH.

Milk yields in BiH are 35% lower than in Croatia and 52% below EU27.

FAO (2012), *Meat and dairy sector study for the IPARD programme in Bosnia and Herzegovina*

3

**Shrink the country** and share the economic strengths of the cities, through improved transport systems. This involves the main road arteries, selective widening of rural roads, modernising the lorry fleet and avoiding over-loading, and improving public transport. Put as many people as possible within one hour's drive of a main city, using cars if they have them, public transport if they don't.

74% of BiH's cars and lorries are more than 10 years old.

BiH Agency for Statistics (2012), *Bosnia and Herzegovina in Figures*

4

**Lift the rural retired out of poverty.** Economic growth will benefit most of the population, but pensioners depend on pensions, so improvements in the pension system will be needed to lift them out of poverty.

Most rural pensioners live on less than BAM 400 per month, and almost one household in four lives in poverty.

UNDP (2012), *Rural Household Survey*

BiH Agency for Statistics (2007), *Household Budget Survey*

5

**Renew the towns.** Currently unemployment blackspots, the medium-sized towns, have the potential to become powerhouses for the surrounding countryside, providing jobs for rural residents and custom for rural businesses. What do they need to make this transformation: Do they need better-trained staff? Less bureaucracy? Better access to credit? Targeted investment? Improved links to big cities? Once the problems are clear, solutions can be found and new life injected into these regions.

Unemployment averages 58% in the 17 urban municipalities that do not contain a major city, compared to 47% in rural municipalities.

<http://www.mojemjesto.ba/en>, *op. cit.*, accessed 17 October, 2012

6

**Accelerate EU integration**, by adopting EU norms and increasing access to EU markets and funds. This will improve the overall government and business climate, and bring specific benefits for agriculture and rural development.

On 1<sup>st</sup> July 2013 Croatia became the 28<sup>th</sup> member of the European Union – thus BiH livestock farmers no longer have access to their biggest export market because the fragmented veterinary system does not meet EU requirements.

7

**Beat bureaucracy and get government working.** The No. 1 priority for urban and rural areas alike is to strengthen democracy, improve the functioning of government, slash bureaucracy and end corruption. The number of procedures and documents should be halved, to reach the average for the EU-15. Put government within reach of rural people through on-line systems and local access points.

67% of the difference between countries in the “Inequality-adjusted Human Development Index” (IHDI) can be explained by their “Ease of Doing Business Ranking”. BiH’s business environment ranks 126<sup>th</sup> out of 185 countries and it under-performs all EU Member States on IHDI.

World Bank (2013) <http://www.doingbusiness.org/rankings>

UNDP (2013) <http://hdrstats.undp.org/en/tables/>

**The idea that Bosnia and Herzegovina can have high human development and vibrant rural areas whilst the country's fundamental problems remain unresolved is neither myth nor reality – it is fantasy.**



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